

THE SURVEY OF LAW FIRM ECONOMICS

# TAKING THE TEMPERATURE

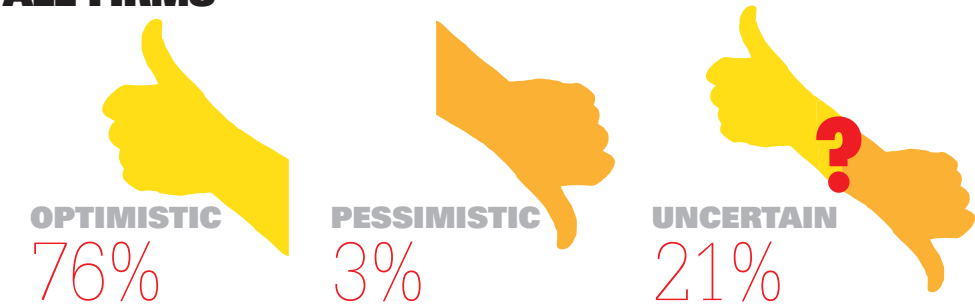
## How Firms Are Feeling

We asked Survey of Law Firm Economics participants to tell us how they felt about the financial picture for 2012 and beyond. Nearly 200 firms gave us a measure of their mood: Are they optimistic, pessimistic or uncertain about the state of the economy and law firm finances? Here are their answers.

### THE MOOD

We asked firms: Looking ahead to the next year, with respect to your law firm, are you:..

#### ALL FIRMS



We asked this question for the first time in our 2011 survey, and the numbers are comparable to last year: Three-quarters of firms expressed optimism about the year ahead and less than 5 percent said they were pessimistic. Pessimism declined dramatically among the smallest firms in our survey (firms with one to nine lawyers). Last year, 17 percent of survey respondents in that category said they were pessimistic; this year, it was 7 percent. Among the largest firms (150 or more lawyers), optimism declined sharply: down from 94 percent to 67 percent. While no firms in that category expressed pessimism about the year ahead, uncertainty among the biggest players climbed from 6 percent to 33 percent.

#### BY FIRM SIZE

NUMBER OF LAWYERS	OPTIMISTIC	PESSIMISTIC	UNCERTAIN
1-9	79%	7%	14%
10-24	68%	5%	27%
25-40	72%	2%	26%
41-75	84%	3%	13%
76-150	86%	0%	14%
150+	67%	0%	33%

### SHOULD THE FIRM MERGE?

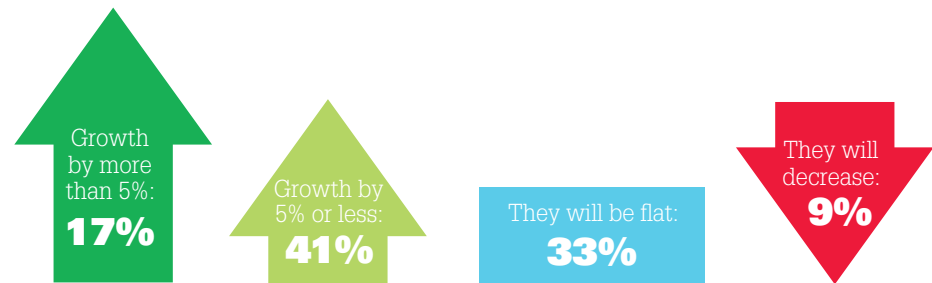
How would you describe your firm's attitude concerning mergers with other law firms?



Though the economy is still uncertain and the law firm business model has been challenged, most firms taking the survey said they weren't interested in a merger. That said, the results on this question were far from uniform among firms of various sizes. Three-quarters of the largest firms taking our survey (150 lawyers or more) were open to or actively seeking merger partners. At the other end of the scale, very small firms (one to nine lawyers) were almost uniformly opposed to the idea: 86 percent said they weren't interested in a merger.

### PROFITS PER PARTNER

How do you expect profits per partner to perform in 2012?



The smallest firms taking our survey (one to nine lawyers and 10 to 24 lawyers) were the most optimistic about profit growth. Roughly a quarter of those firms expected a surge of 5 percent or better. A strong majority of larger firms anticipated that profit growth would remain at less than 5 percent or would be flat.

### BILLING RATES

What is your firm planning to do with billing rates for 2012?

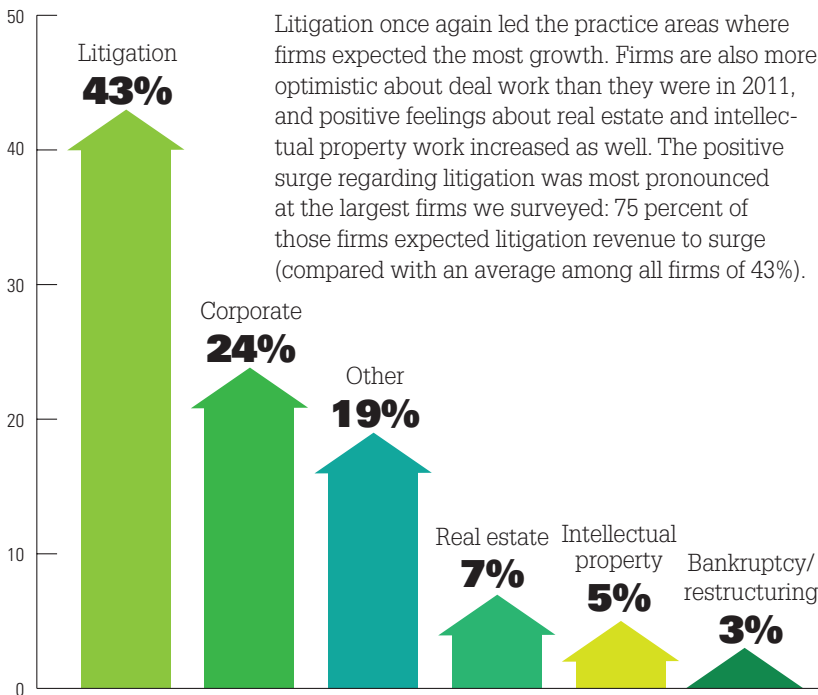


NO. OF LAWYERS	INCREASE RATES BY MORE THAN 5%	INCREASE RATES BY LESS THAN 5%	HOLD RATES FLAT	DECREASE RATES
1-9	14%	36%	43%	7%
10-24	7%	49%	44%	0%
25-40	9%	74%	16%	0%
41-75	8%	87%	3%	3%
76-150	11%	82%	7%	0%
150+	8%	83%	8%	0%

Moderation is the name of the game when it comes to this year's rate increases. Last year, more than a quarter of firms at 150 lawyers or more said they would boost rates by more than 5 percent. This year, just 8 percent of those firms said they would do the same. Across size categories, the vast majority of firms said that 2012 will be a year of modest increases—less than 5 percent—or no increases at all.

### PRACTICE GROWTH

In which practice area do you expect to see the most revenue growth in 2012?





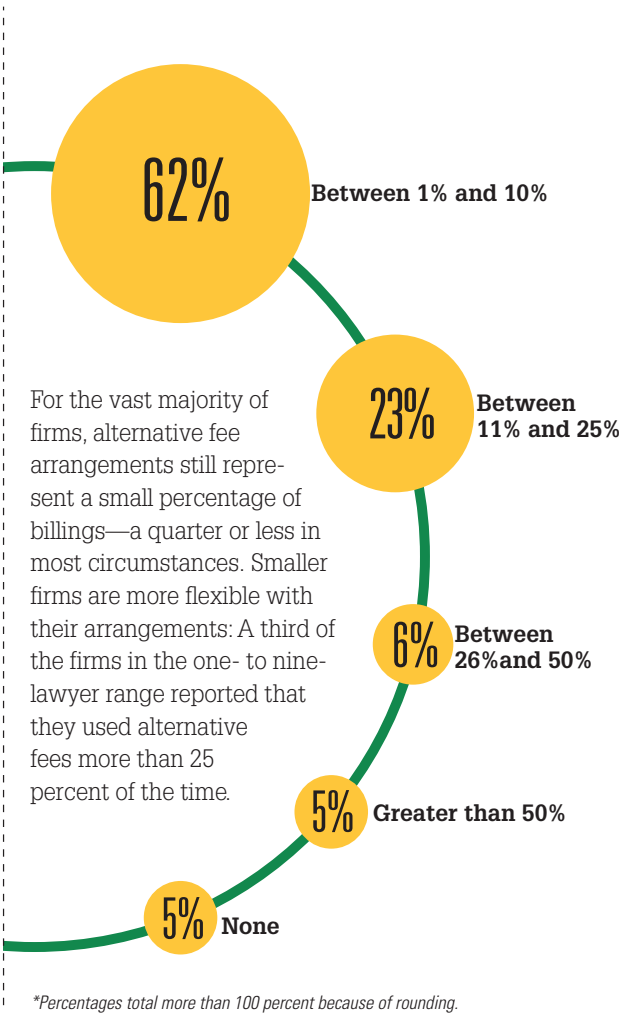
# FEE ARRANGEMENTS

## Billing Trends: Alternatives and Hourly Rates

As with our 2011 survey, more than 95 percent of firms reported that they had engaged in some kind of alternative fee arrangement with clients in the previous year. As for the still-dominant billable hour, firms saw their average hourly rates slip during the last year. Here's what firms told us about the frequency of alternative fee arrangements and the state of their billing rates.

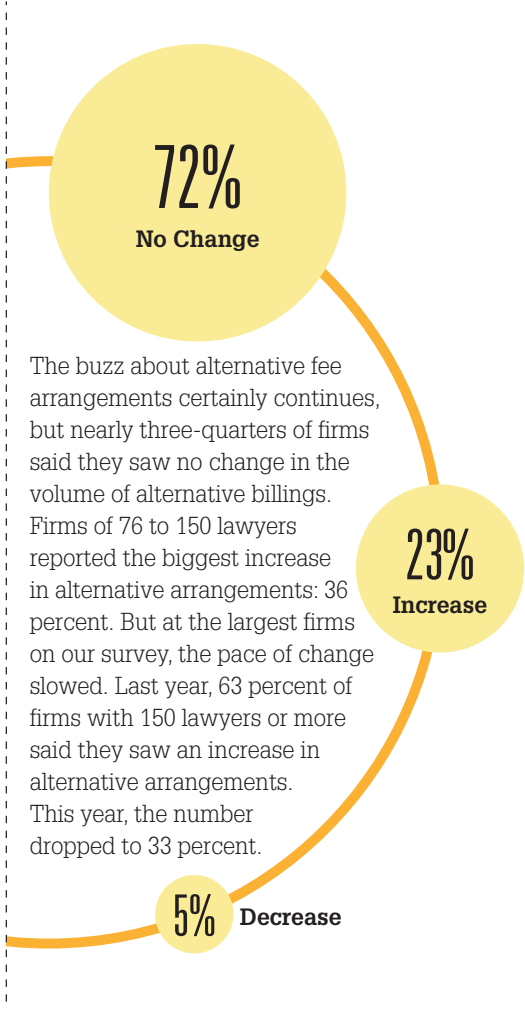
### ALTERNATIVE FEES AS PERCENTAGE OF BILLINGS

In 2011, what percentage of your firm's billing was valued through an arrangement not based solely on hourly rates?



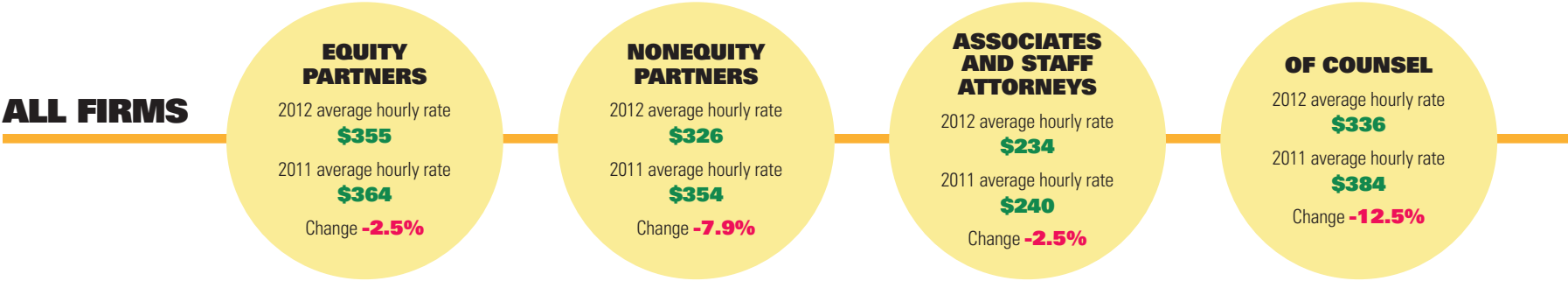
### VOLUME OF BILLINGS

What change did you see in the volume of alternative fee billings in 2011 from 2010?



### AVERAGE BILLING RATES

As of Jan. 1, what was the average billing rate for partners and associates at firms surveyed?



Why did revenue per lawyer lag in 2011? Take a look at rates. In our latest survey, the average hourly rate for equity partners dipped 2.5 percent (driven by large declines at the smallest and largest firms we survey). There was, however, a bright spot: Firms in the middle—with 25 to 75 lawyers—saw healthy growth. If our survey is any indication, don't expect a major turnaround next year. Some 90 percent of firms said they would raise rates by less than 5 percent or would hold them steady.

### BY FIRM SIZE

NO. OF LAWYERS	EQUITY PARTNER (AVERAGE HOURLY RATE)	% CHANGE SINCE LAST YEAR	ASSOCIATE OR STAFF ATTORNEY (AVERAGE HOURLY RATE)	% CHANGE SINCE LAST YEAR
1-9*	\$292	-8%	N/A	N/A
10-24*	\$278	-9%	\$235	+10%
25-40*	\$312	+6%	\$220	+6%
41-75	\$342	+9%	\$233	+11%
76-150	\$372	0%	\$226	0%
150+	\$412	-8%	\$253	-8%

\*For the latest Survey of Law Firm Economics, the composition of the three smallest size categories of firms was altered. As such, figures from last year's survey reflect slightly different firm sizes (2-8 lawyers; 9-21 lawyers; 21-40 lawyers).

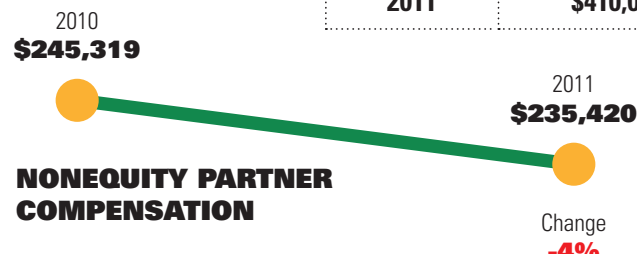
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# PARTNERS:

## THE 7% SOLUTION

After taking a big hit in the early days of the Great Recession, equity partners have more than made up for it. Last year, they saw compensation rise 7 percent, and this year, it rose 7 percent again. For nonequity partners, however, the picture wasn't so rosy: Compensation declined, on average, by \$10,000.

YEAR	AVERAGE EQUITY PARTNER COMPENSATION	ANNUAL CHANGE
2007	\$374,000	+2.5%
2008	\$353,000	-5.0%
2009	\$358,000	+1.4%
2010	\$383,000	+7.0%
2011	\$410,000	+7.0%



# EXPENSES:

## HOLDING DOWN COSTS

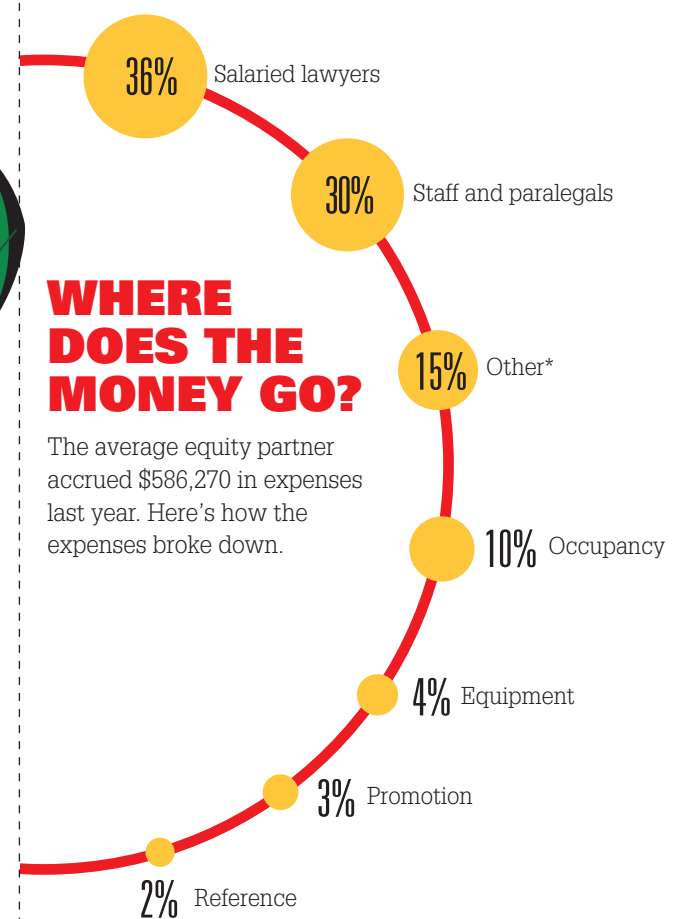
Firms averaged expenses of nearly \$162,000 per lawyer in this year's survey, a 4.3 percent drop that nearly wiped out all of the expense gains in the 2011 survey. For a firm's equity partners, salaried lawyers and staff expenses made up two-thirds of the total spending.

YEAR	EXPENSES PER LAWYER
2002	\$152,562
2003	\$158,972
2004	\$155,952
2005	\$161,892
2006	\$167,366
2007	\$170,363
2008	\$167,256
2009	\$159,521
2010	\$169,288
2011	\$161,904



### WHERE DOES THE MONEY GO?

The average equity partner accrued \$586,270 in expenses last year. Here's how the expenses broke down.



\*Other: Including malpractice insurance premiums and settlements, payments to former partners and all other expenses not shown separately.

# NET INCOME:

## A BALANCING ACT

With revenue-per-lawyer figures heading south, solid expense control helped firms, on average, hold their own when it came to net income. Net income averages declined by \$12,000 per lawyer since our last survey. But when viewed as a percentage of gross revenue, net income held steady—averaging 62.5 percent of gross, just as it did last year.



YEAR	NET INCOME PER LAWYER
2006	\$247,000
2007	\$260,000
2008	\$246,000
2009	\$253,000
2010	\$282,000
2011	\$270,000